

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

The MFMA in terms of section 53 requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and Senior Officials of the municipality meeting under the chairpersonship of the Councillor responsible for Budget and Treasury and at times under the chairperson ship of Municipal Manager as the Chairperson for Budget and Treasury was sometimes held up due to the nature of his work as a politician.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The mayor has tabled in council the required IDP and budget time schedule in August 2011. Key dates applicable to the process were:

IDP Review Process Plan Attached as Annexure A

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The process plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs
- Compilation of departmental business plans including key performance indicators and targets
- Financial planning and budget process
- Public participation process
- Compilation of the SDBIP and
- The review of the performance management and monitoring processes

The IDP has been taken into a business and financial planning process leading up to the 2012/13 MTREF, based on the approved 2011/12 MTREF, Mid- year review and adjustment budget. The

business planning process has subsequently been refined in the light of the current economic circumstances and the resulting revenue projections.

During the compilation of the 2012/13 MTREF, each department/ function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2011/12 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning and essentially informed the detail operating budget appropriations and three – year capital programme.

2.1.3 Financial Modelling and key planning Drivers

As part of the compilation of the 2012/13 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2012/13 MTREF:

- The approved 2011/12 adjustment budget and performance against the SDBIP
- Debtor payment levels
- Growth of the municipality
- Local economic climate and the increase in number of indigents
- Cash Flow Management strategies

In addition to the above, the strategic guidance given in the circulars issued by the National Treasury have been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

The draft 2012/13 MTREF as tabled before Council on the 30 March 2012 for community consultation was made available to community in hard copies at municipal offices, traditional leaders' office and other strategic places within the community.

The municipality did submit the draft documents for inputs to Provincial and National treasury on time due to the appointment of Senior Accountant: Budget and Reporting who had to report using Treasury's approved template without her been taken to any kind of training to enable her. The municipality is obliged in terms of section 23 of the MFMA to submit the document in the appropriate format (electronic and printed copies) to both treasuries and other stakeholders.

The community consultation meetings were held from 21st to 22nd April 2012 by clustering wards into two which means that 6 meetings were held in different wards. The applicable dates and venues to the community were made on notice boards and the municipal mobile trailers and the attendance to some venues was not that satisfactory as the municipality was expecting attendance to be more 200 participants per venue. Other stakeholders involved in the consultation included non governmental institutions, provincial departments, traditional leaders and community based organisations.

Submissions received during community consultation process were considered during the finalisation of the final document adopted by the municipal Council.

Significant changes effected in the final 2012/13 MTREF compared to the draft 2012/13 MTREF that was tabled for community consultation include:

The employee salaries, Stores, materials and stationery, Intangible assets etc.

2.2 Overview of alignment of annual budget with IDP

The constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realised through a credible integrated developmental planning process.

Municipalities need to utilise integrated developmental planning as a method to plan future development in their areas and so find the best solutions to achieve sound long –term developmental goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which the municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated Developmental Planning in the South African context is among others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is of utmost important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the municipality, issues of national and provincial importance are reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009
- Government Programme of Action
- Provincial Growth and Development Strategy

- National and Provincial spatial development perspectives
- The National Priority Outcomes
- National 2014 Vision
- National Key Performance Indicators

The constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2012/13 MTREF and further planning refinements that have directly informed the compilation of the budget.

Table IDP Strategic Objectives

2012/13 MTREF
1. Provision of quality basic services and infrastructure
2. Financial management and viability
3. Good governance and Public Participation
4. Institutional Development and Transformation
5. Local economic development
6. Spatial Development and Environment

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
 - Provision of electricity
 - Provision of clean water
 - Provision of quality houses

- Provision of better road infrastructure
- Provide municipal road safety and transport
- Provision of child care facilities
- Provision of free basic services to needy households

2. Financial Management and Viability

- Enhancement of Municipal revenue
- Sound financial management and systems

3. Institutional Development and Transformation

- Establish and maintain institutional capacity
- Ensure sound and effective human resources systems
- Promote the interest of the designated groups
- Promote safe and security of all communities
- Promote skills development amongst communities
- Attract and retain employees
- Develop and maintain sound labour relations

4. Good governance and Public Participation

- Promote good governance and public participation
- Promote intergovernmental relations
- Encourage participation of traditional leaders in the programmes of the municipality

5. Local Economic Development

- Enhance economic development
- Half poverty by 2014
- Promote tourism
- Promote secondary economic activities

6. Spatial Development and Environment

- Develop Aganang Development Nodes
- Promote sound environmental practices

- Create safe and healthy environment
- Promote sound land use practices

In line with the Municipal Systems Act, the IDP constitutes a single, inclusive strategic plan for the municipality, the five year programme responds to the development challenges and opportunities faced by the municipality by identifying the key performance areas to achieve the five strategic objectives mentioned above.

In addition to the five –year IDP, the municipality undertakes an extensive developmental strategy which primarily focuses on a longer term horizon; 6 to ten years. The strategy specifically targets future developmental opportunities in traditional residents settlements. It provides direction to the municipality's IDP, sectoral plans and strategies, and the allocation of resources of the municipality and other service delivery partners.

The 2012/13 MTREF has therefore been directly informed by the IDP revision process and the following tables provide reconciliation between the IDP objectives and operating revenue, Operating Expenditure and Capital Expenditure.

2.3 Measurable performance objectives and indicators

Performance management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality is still struggling to develop and implement a performance management system due to lack of capacity in terms of staff and knowledge.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed and continues through each of the planning, budgeting, implementation and reporting stages.

2.4 Overview of budget related –policies

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4.1 Review of credit control and debt collection policies

2.4.2 Asset Management Policy

2.4.3 Budget Policy

2.4.4 Supply Chain Management Policy

2.4.5 Cash Management and Investment Policy

2.4.6 Tariff Policies

2.4.7 Property Rates Policy

2.4.8 Indigent Policy

2.5 Overview of budget assumptions

2.5.1 External Factors

Aganang Municipality with its background of been a municipality established in 2000 and lack of knowledge by residents about powers and functions of municipalities makes it difficult for the municipality to have a breakthrough in terms of introduction of services that the municipality can bill and raise revenue, as the community oppose everything that has a monetary contribution by the municipality.

The municipality is one of the rural municipalities that do not have the prospects of attracting investors in terms of economic activities. The municipality in terms of statistics has a huge number of indigents and that makes it difficult for the municipality to fund these households as the municipality has a challenge of raising revenue on its own.

The economic meltdown that has hit the world during the 2009/10 financial year is one element that need not be forgotten in terms of expecting households to contribute or pay for services as the tracks of that recession are now visible. As the results of that economic meltdown, breadwinners have lost their jobs and that makes it difficult to pay for services.

2.5.2 General inflation outlook and its impact on the municipal activities

There are four key factors that have been taken into consideration in the compilation of the 2012/13 MTREF:

- The increase in the cost of remuneration. Employee related costs amount to 41.7 % of the total operating expenditure in the 2012/13 MTREF and therefore this increase above inflation places an upward pressure on the expenditure budget. The salary budget is one sub-vote that makes it extremely impossible for the municipality to achieve the objective of a 60/40 ratio between capital and operating expenditure respectively.
- National Government macro economic targets
- The impact of municipal cost drivers
- The general inflationary outlook and the impact on the municipality's residents and businesses

2.6 Overview of budget funding

2.6.1 Medium –term outlook: Operating revenue

The following table is a breakdown of the operating revenue over the medium term:

Table 22 Breakdown of the operating revenue over the medium term

Description	Current Year		2012/13 Medium Term Revenue & Expenditure Framework					
	Budget Year 2011/12	%	Budget Year 2012/13	%	Budget Year +1 2013/14	%	Budget Year +2 2014/15	%
Revenue by Source	R		R		R		R	
Property Rates	200,000	0.3	300 000	0.4	315 000	0.4	330 750	0.4
Interest Earned-External Investment	1 000 000	1.5	1 358 424	1.8	1 426 345.20	1.7	1 497 662.46	1.7
Rental of facilities and Equipment	420 000	0.6	453 600	0.6	476 280	0.6	500 094	0.6
Transfers Recognised – Operational	57 877 971	89.5	67 523 300	89	72 748 825	89.3	79 559 959	89.6
Other own Income	5 160 000	8.	6 232 054	8.2	6 543 657	8.03	6 870 840	7.7
Total Revenue (Excluding Capital Transfers)	64 657 971	100	75 867 378	100	81 510 107	100	88 759 305.	100
Total Operating Expenditure	68 237 855		81 367 378		87 560 107		95 414 305	
Surplus/(Deficit)	(3 579 884)		(5 500 000)		(6 050 000)		(6 655 000)	

The following graph is a breakdown of the operational revenue per main category for the 2012/13 financial year.

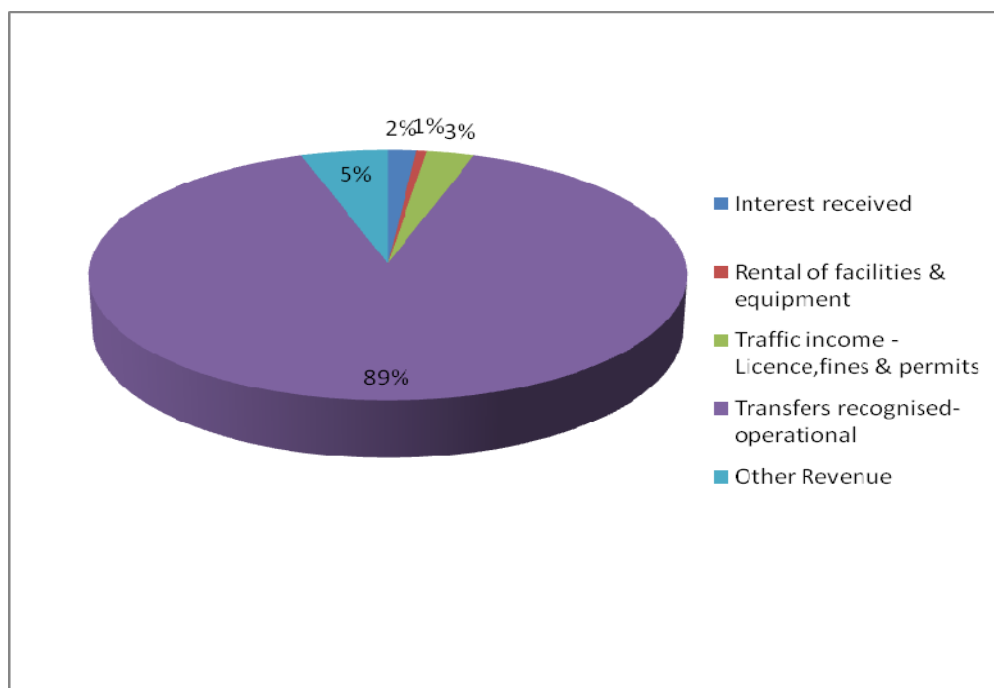


Figure Breakdown of operating revenue over the 2012/13 MTREF

Revenue base plays a pivotal role in ensuring the desired levels of revenue. The municipality derives revenue from government grants and subsidies as a result of no revenue base. A property rate and Skills development reimbursement are included as part of other revenue as the figure expected is insignificant that disclosing it separate just adds to the list.

2.6.2 Medium –term outlook: Capital Revenue

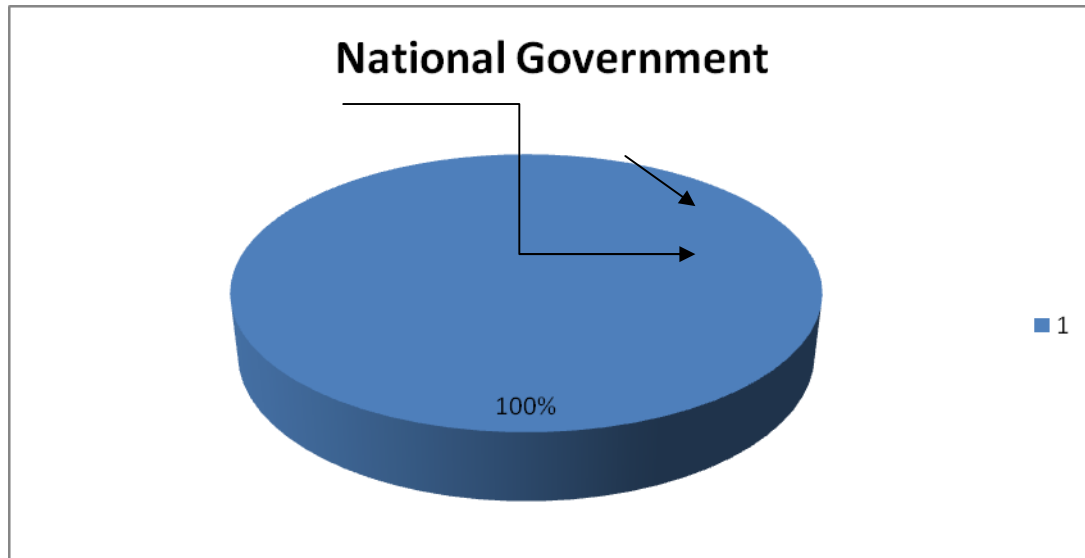
The following table is a breakdown of the funding composition of the 2012/13 medium term capital programme:

Table 23 Sources of Capital Revenue over the MTREF

Vote Description	2011/12 Medium Term Revenue Expenditure Framework							
	Adjusted Budget	%	Budget Year 2012/13	%	Budget Year +1 2013/14	%	Budget Year +2 2014/15	%
Funded By:								
National Government	40 702 964	100	41 743 700	100	43 668 175	100	45 864 541	100
Transfers recognised-	40 702 964	100	41 743 700	100	43 668 175	100	45 864 541	100

Capital								
Total Capital Funding	40 702 964	100	41 743 700	100	43 668 175	100	45 864 541	100

The above table is graphically represented as follows for the 2012/13 financial year:



Total capital grants and receipts equates to 100% of the total funding source which represents R 41.7 million for the 2012/13 financial year and it remained the same as the percentage stood at 100% for the 2013/14 financial year.

LEGISLATION COMPLIANCE

Compliance with the MFMA implementation requirements have been adhered to through the following activities:

1. In year reporting

Reporting to National Treasury in electronic format was fully compiled with on monthly basis.

2. Internship Programme

Aganang municipality is participating in the Municipal Management Internship programme and has employed five interns undergoing training in various units of Finance Department. Of the three interns, two has been appointed here in the municipality on permanent basis, and the municipality is on the process of appointing one intern.

3. Budget and Treasury Unit

The Budget and Treasury unit has been established in accordance with the MFMA

4. Audit Committee

Audit committee's contract came to an end at the end of 31 May 2012, and the District has appointed an audit committee which will be serving in local municipalities.

5. Service Delivery and Budget Implementation Plan

The SDBIP is still at Draft level and awaiting approval before the stipulated timeframe in terms of MFMA.

6. Policies

Budget related policies have been approved by council on the 31 May 2012.